

## **REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMHLATHUZE MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the uMhlathuze Municipality, which comprise statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010)(DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the uMhlathuze Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

**Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

**Restatement of corresponding figures**

9. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 2011 in the financial statements of the uMhlathuze Municipality.

**Material losses**

10. As disclosed in note 25 to the financial statements, material losses to the amount of R12,589,062 and R32,701,629 were incurred as a result of water and electricity losses.

**Additional matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter:

**Unaudited supplementary schedules**

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

**Predetermined objectives**

14. There are no findings on the annual performance report.

## **Compliance with laws and regulations**

### **Procurement and contract management**

15. Persons who are in service of the state have not disclosed that they were employed by the state and have been transacting with the municipality, in contravention with section 44 of the supply chain management (SCM) Regulations.

## **INTERNAL CONTROL**

16. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

17. The municipality has a system of internal controls in a form of a declaration form; however, the service providers did not disclose their identity as in the service of state.

## **OTHER REPORTS**

### **Investigations**

18. An investigation was completed during the year that related to the cash flow problems experienced by the municipality.
19. An investigation was completed during the year that related to alleged irregularities regarding the eSikhaleni Hostel Refurbishment and uMhlathuze Village Housing.
20. An investigation is in progress regarding the payments of income refunds.

*Pietermaritzburg*  
Pietermaritzburg

30 November 2011



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

